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SIPDIS

STATE PASS TO EXIM AND TDA

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TAGS: EPET EINV PGOV PINR PREL NI
SUBJECT: EXXON AND CHROME FIRST TO BID ON JDZ BLOCKS

SENSITIVE BUT UNCLASSIFIED, PLEASE TREAT ACCORDINGLY.

¶1. (U) SUMMARY. The development of natural resources in the Nigeria-Sao Tome and Principe Joint Development Zone (JDZ) took another step forward after a joint regulatory body gave ExxonMobil the go-ahead to exercise preferential rights in the Zone. An American-Nigerian company will have a similar opportunity after ExxonMobil, followed by winners of the twenty companies that tendered non-preferential bids in October 2003. The Joint Development Authority operating in Abuja is preparing for the robust development of petroleum and other natural resources in the JDZ, and diversification into other commercial enterprises. END SUMMARY.

¶2. (U) On December 30, the fifth Nigeria-Sao Tome Joint Ministerial Council meeting announced that exploitation of the Joint Development Zone may begin in the foreseeable future as the Council agreed to give ExxonMobil the opportunity to exercise its preferential rights to bid on specific blocks in the JDZ. ExxonMobil has thirty days to submit its bids, after which Environmental Remediation Holding Corporation (ERHC), a Houston-based firm now doing business as Chrome Energy Corporation (CEC), will exercise its preferential rights.

CHARTING THE COURSE

¶3. (U) Work on the JDZ began in 1999 when the heads of state of Nigeria and of Sao Tome and Principe agreed to negotiate a formal treaty regulating the development of a zone of overlapping maritime boundary claims between the two countries. Negotiations began in 2000, and a treaty was signed and ratified by both countries in 2001 covering a Joint Development Zone of almost 35,000 square kilometers. The treaty will be in force for 45 years with a review after 30, and Nigeria and Sao Tome and Principe will share resources on the basis of a 60/40 ratio, respectively.

¶4. (U) Disagreements between the countries over elements of the treaty stalled further development of the JDZ until the Nigeria-Sao Tome and Principe Joint Development Authority (JDA) announced the opening of the 2003 JDZ Licensing Round in April 2003. Nine blocks were offered, and bids were due by October 18. A summary of signature bonuses offered in the bids (see below) was issued on October 27.

¶5. (SBU) Sam Dimka, head of Corporate and Public Affairs for the JDA, told Econoff that twenty companies submitted 33 bids for eight of the nine blocks offered. Most were for the northern-most blocks which are generally considered to hold the most promise; no bids were received for Block 08, one was received for Block 09, and the single bid for Block 07 did not conform to bid requirements set forth in the published Guidelines for Investors, according to Dimka.

THE COST OF DOING BUSINESS

¶6. (SBU) Winning bidders will be offered production sharing contracts (PSC) by the JDA. (A PSC is a contract whereby one party, usually an international oil company, takes all of the risks and bears all the cost of finding and producing petroleum. After recouping such costs, the contractor shares production with a national oil company.) The JDA will evaluate bids first according to specified technical criteria and then commercial criteria. A key element of the commercial evaluation will be the signature bonus offered by the bidders. The signature bonus is a premium each bidder agrees to pay in a lump sum within 30 days of signing a PSC with the JDA. The Guidelines for Investors stipulated that a signature bonus of at least $30 million was required per block. (The JDA's Dimka told Econoff that the bid for Block 07 included a signature bonus of less than $30 million so the bid was deemed non-compliant.) ChevronTexaco reportedly offered $123 million for Block 01. Dimka estimated that Sao Tome and Principe alone will receive between $100 million and $200 million by mid-2004 from the signature bonuses. Bidders are also to offer production bonuses for specific future production thresholds.

¶7. (U) In addition to the bonuses, each bidder was required to pay a $15,000 application fee per block, as well as a $10,000 bid processing fee per block. Companies had the opportunity to purchase data and non-exclusive seismic surveys on the blocks at commercial rates from firms including PGS, WesternGeco and Veritas.

PREFERENTIAL RIGHTS

¶8. (U) Third Party Interests must be settled before the JDA offers contracts on the bids. ExxonMobil and Environmental Remediation Holding Company, now operating as Chrome Energy within the Chrome Group of Nigeria, had been conducting exploration activities under agreement with the Democratic Republic of Sao Tome and Principe (DRSTP) prior to negotiation of the JDZ treaty. Both companies were subsequently given preferential bidding rights under the treaty.

¶9. (U) ExxonMobil has first opportunity to bid on three blocks, and may hold stakes as high as 40 percent, 25 percent, and 25 percent respectively in the blocks. The company has 30 days after it was notified by the JDA to exercise its rights (until about January 30, 2004). Subsequently, Chrome Energy will be given 15 days to exercise its rights to six blocks. The maximum stake Chrome may own in its blocks varies from 15 to 30 percent. Chrome may bid on blocks already bid by ExxonMobil, but the two companies cannot hold a combined interest greater than 40 percent in any one block.

¶10. (U) Dimka told Econoff that these preferential bids must also include a signature bonus at least equal to the proportion of its preferential right in a block when compared to the highest bid for that block in the 2003 licensing round. For example, if ExxonMobil submits it's first preferential bid on a block for which ChevronTexaco submitted the highest signature bonus, ExxonMobil's signature bonus must match at least 40 percent of ChevronTexaco's offer.

LOOKING FOR FAST DEVELOPMENT

¶11. (SBU) Representatives of the two countries and the JDA have publicly stated that the amount of the signature bonus will not be the sole determinant of a winning bid. Considerations such as experience, financing, and commitment to local content will be closely evaluated. The JDA's Dimka told Econoff that the Authority will choose companies that show a capacity and intent to develop and produce oil in the Zone quickly and efficiently. The JDA, he said, is concerned that some bidders, particularly smaller companies indigenous to West Africa, have submitted bids in hopes of gaining rights they do not plan to develop but instead would transfer later at hefty fees. Dimka said the JDA is not interested in licensing such "land grabs."

MULTIFACETED JDA

¶12. (SBU) Dimka also told Econoff that the JDA is set up as a "one-stop resource" shop for the companies that will ultimately develop the JDZ, as it is both the exploratory body offering licenses and the regulatory agency implementing the Zone's Petroleum Regulations and collecting taxes, royalties and fees. Dimka said knowledgeable and talented individuals from both countries staff the JDA. He noted the JDA's Chairman, Dr. Taju Umar, holds a PhD in Geology and was formerly associated with Nigeria's Department of Petroleum Resources. Dimka himself worked in the public affairs office of Nigeria's former Advisor to the President for Petroleum Matters, Dr. Rilwanu Lukman, including while Lukman served as Secretary General of OPEC.

¶13. (SBU) According to Dimka, the JDA will be financially self-sufficient, and will develop and manage resources in the Zone other than oil, such as fishing and non-petroleum minerals. Dimka said the JDA will invest in other commercial interests, such as service industries and airlines. Dimka also said the JDA is committed to ensuring the security of operators and facilities that will be established in the Zone, and will coordinate that effort between the two countries and private security firms.

BOON FOR SAO TOME AND PRINCIPE

¶14. (SBU) Dimka told Econoff that while this venture will benefit both countries, the potential windfall it may create

for the Democratic Republic of Sao Tome and Principe (DRSTP) is enormous. He did note that the DRSTP must develop its infrastructure and commercial centers significantly in the near future to handle the influx of business the JDZ will bring. For example, he said recent meetings held in DRSTP used all available hotel space, and that several new large hotels are needed. He also noted that international oil companies and Nigerian banks are interested in negotiating land purchases now with the expectation that they will establish future operations on the islands.

HINSON-JONES